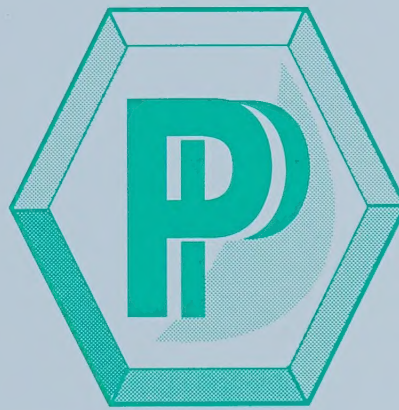


AR60

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

PRISM PETROLEUM LTD.



Annual
Report
1996

Corporate Profile

Prism Petroleum Ltd., incorporated in 1993, is an active junior oil and gas company. Rollin Oil Resources Inc. was amalgamated with Prism on September 1, 1996 under the name of Prism Petroleum Ltd. Headquartered in Calgary, Alberta, the corporation is well positioned to execute its low risk exploration and development strategy targeted at the Alberta sedimentary basin.

Prism Petroleum Ltd. is a publicly-traded Alberta Stock Exchange reporting issuer with a total 43,751,273 shares outstanding. The trading symbol is "PMM".

ANNUAL MEETING

The Annual Meeting of the common shareholders of Prism Petroleum Ltd. will be held on Tuesday, May 27, 1997 at 10:00 a.m. in the Howard Boardroom of the offices of Howard, Mackie, 1000, 400 3rd Avenue, S.W., Calgary, Alberta.

Corporate Highlights

	Period Ended December 31, 1996	Year Ended June 30, 1996
GROSS REVENUES	\$ 1,379,515	\$ 1,405,691
CASH FLOW FROM OPERATIONS	\$ 590,359	\$ 136,010
NET INCOME (LOSS)	\$ 406,686	\$ (2,151,910)
TOTAL ASSETS	\$ 9,965,425	\$ 3,999,752
SHAREHOLDER'S EQUITY	\$ 6,931,795	\$ 2,385,968
DAILY PRODUCTION RATE	455 boe	249 boe
RESERVES	2,005,500 boe	986,500 boe

Abbreviations & Terms

bbl	barrel
bbl/d	barrels per day
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
boe	barrel oil equivalent (1 boe = 10 mcf)
boe/d	barrels of oil equivalent per day
NGL	natural gas liquids
mbbl	thousand barrels
mboe	thousand barrels oil equivalent

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Directors and Officers

Mathew W. Baldwin
Director
Edmonton, Alberta

William E. Heaver
Director
Calgary, Alberta

Thomas F. Bugg
Director
Calgary, Alberta

Linette M. Kelly
Secretary Treasurer
Calgary, Alberta

Douglas H. Church
President and Director
Calgary, Alberta

Donald A. Smith
Director
Calgary, Alberta

Ross D. Freeman
Director
Calgary, Alberta

Gregory G. Stebbe
Director
Calgary, Alberta

Herman S. Hartley
Chief Executive Officer,
Chairman of the Board and Director
Calgary, Alberta

Head Office
650, 101 6th Avenue, S.W.
Calgary, Alberta T2P 3P4
Telephone: (403) 237-2396
Telecopier: (403) 266-5388

Registrar & Transfer Agent
Montreal Trust
Calgary, Alberta

Auditor
Michael A. Kociuba Professional
Corporation, Chartered Accountant
Calgary, Alberta

Stock Exchange Listing
The Alberta Stock Exchange
Symbol **PMM**

Banker
Canadian Western Bank
Calgary, Alberta

Corporate Information

SHARE PRICE RANGE

	High	Low
1995	\$0.19	\$0.06
First Quarter 1996	\$0.17	\$0.10
Second Quarter 1996	\$0.18	\$0.08
Third Quarter 1996	\$0.12	\$0.06
Fourth Quarter 1996	\$0.15	\$0.07

Chairman's Report

1996 was a very successful year for Prism Petroleum Ltd., highlighted by the amalgamation with RollinOil Resources Inc. on September 1, 1996.

The amalgamation, coupled with acquisitions and development programs completed during the year more than doubled the size of the company, increasing year end production rates to 455 boed and reserves to 2,000,000 boe.

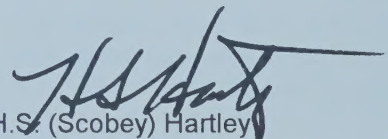
Earnings and cash flow from continuing operations for the reporting period were \$216,696 and \$590,359 respectively. It should be noted that due to the timing of the amalgamation, results presented herein include only the last six months of 1996 for the former RollinOil properties and the last four months of 1996 for the former Prism properties.

Coincident with the amalgamation, new financing arrangements were put in place resulting in one previous debt instrument being discounted significantly, and considerably lower interest rates being applied to all of the company's current indebtedness.

Prism will be focussing primarily on two exciting development projects in the coming year; continued development of the company's Provost oil and gas holdings, and installation of waterflood facilities at the Bulwark property.

Prism anticipates a relatively stable pricing environment for the coming year which coupled with projected development programs will lead to record financial results in 1997.

I would like to thank the staff, directors and shareholders for their continued support and contribution to the company's success. We look forward to continued improvements in future years.



H.S. (Scobey) Hartley
Chairman of the Board
and Chief Executive Officer

April 22, 1997

PRODUCTION

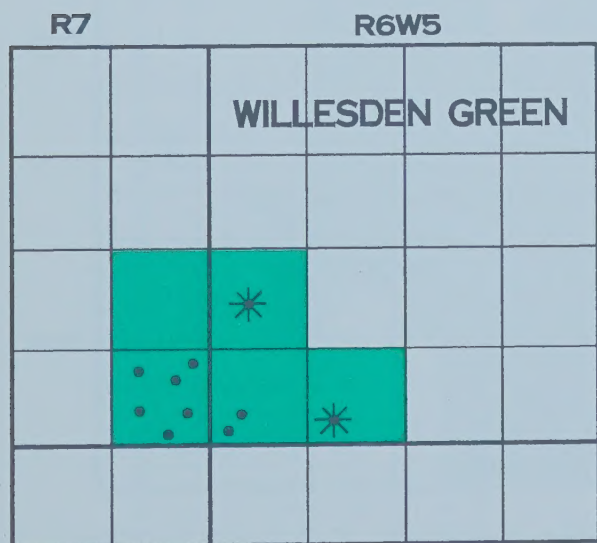
Production for the reporting period ended December 31, 1996 averaged 2.74 million cubic feet of natural gas and 181 barrels per day of crude oil and natural gas liquids, for a combined total of 455 barrel equivalents per day. Year end production rates were approximately eight percent higher than rates for the quarterly period ended September 30, 1996.

1997 sales volumes are expected to increase by at least 20 percent from year end rates as development programs at Provost should more than offset normal production declines from existing wells.

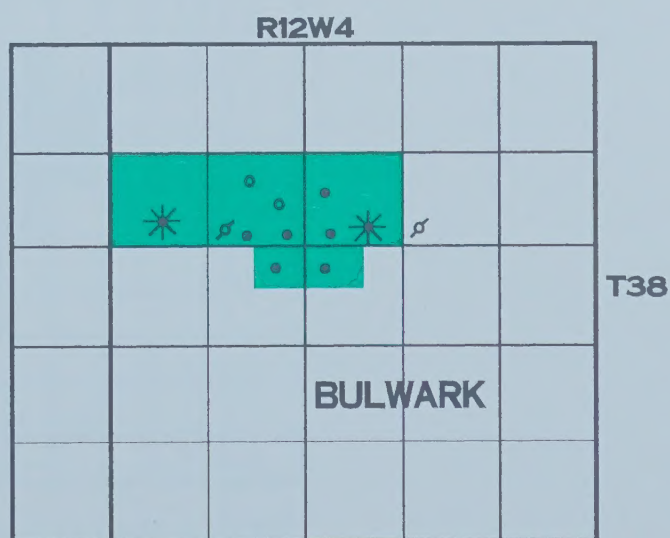
The majority of Prism's natural gas production is dedicated to long term full price sales contracts. Crude oil and natural gas liquids are sold under standard short term contracts. While crude oil prices for 1997 are not projected to be as high as 1996, Prism expects the pricing of all of its contracted gas to continue to increase significantly over the next few years as Alberta's export pipeline capacity increases.

PRODUCTION RATES
PERIOD ENDED DECEMBER 31, 1996

	Gas mcf/d	Oil bbl/d	NGL bbl/d	BOE bbl/d
PROVOST	929	54	3	150
NORTHVILLE	688	4	30	103
WILLESSEN GREEN	319	3	41	76
BULWARK	172	36	-	53
HOTCHKISS	238	-	-	24
OTHERS	<u>395</u>	<u>3</u>	<u>7</u>	<u>49</u>
TOTAL	<u>2,741</u>	<u>100</u>	<u>81</u>	<u>455</u>



■ Prism Unit Lands • Prism et al Oilwell
* Prism et al Gaswell



■ Prism Lands • 1997 Development Locations
• Prism et al Oilwell * Prism et al Gaswell
/ Suspended or Service Well

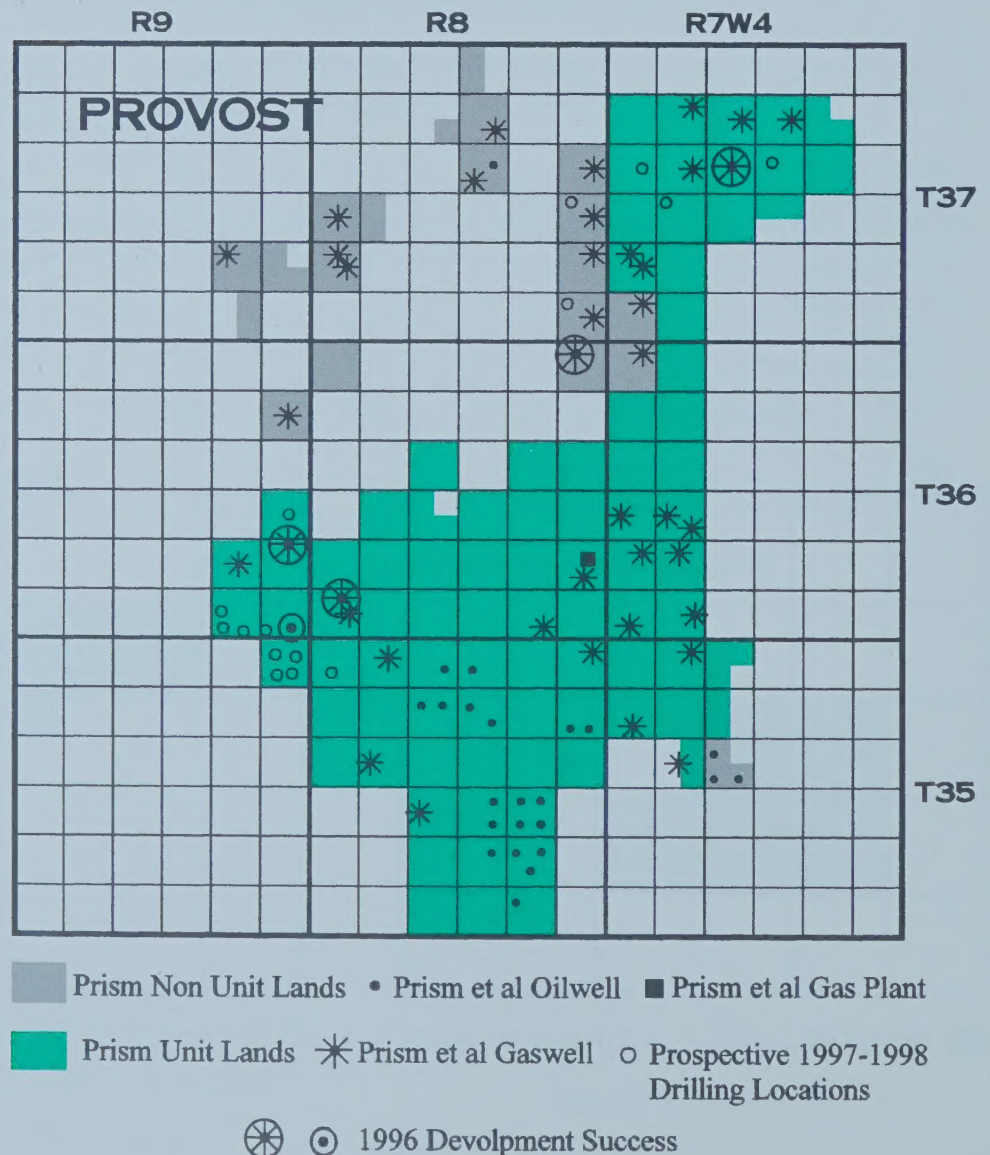
Review Of Operations

OPERATIONS

At year end, Prism held interests in 151 wells in Alberta, (41.8 net), of which 78, (36.4 net), are operated by the company.

In the twelve months ended December 31, 1996, Prism participated in the drilling of four gas wells (1.21 net), two oilwells (0.34 net) and one abandonment (0.3 net) for a net 84% success rate. One additional well (0.05 net) was drilling at year end. All six successes were tied in and on production prior to year end. In addition, the company increased its interest in the West Provost Viking Gas Unit (including 42 wells and a gas plant), from 19.4% to 31.1%. The company also acquired interests in five (2.45 net) oilwells and associated battery facilities in the Provost area.

During 1997, the company intends to drill and tie in from six to twelve infill and step out development wells at Provost, to drill an injection well and install waterflood facilities at Bulwark, and to continue to pursue increased interests in its major properties. Development at Provost will focus on extending a Viking oil discovery drilled in 1996, and on exploiting undrained areas of the Viking gas unit.



RESERVES

Proven reserves to Prism's working interest at December 31, 1996 were 9.881 billion cubic feet of natural gas, 625,900 barrels of crude oil and 181,300 barrels of natural gas liquids, for a combined total of 1,795,400 barrel equivalents. Successful drilling and recompletion results and property acquisitions, primarily in the Provost and Bulwark areas, provided substantial increases during 1996. The remaining proven reserve life, using production rates for the reporting period, is equal to 10.8 years. Approximately 88 percent of the company's proven reserves are located in the Provost, Northville, Willesden Green and Bulwark areas.

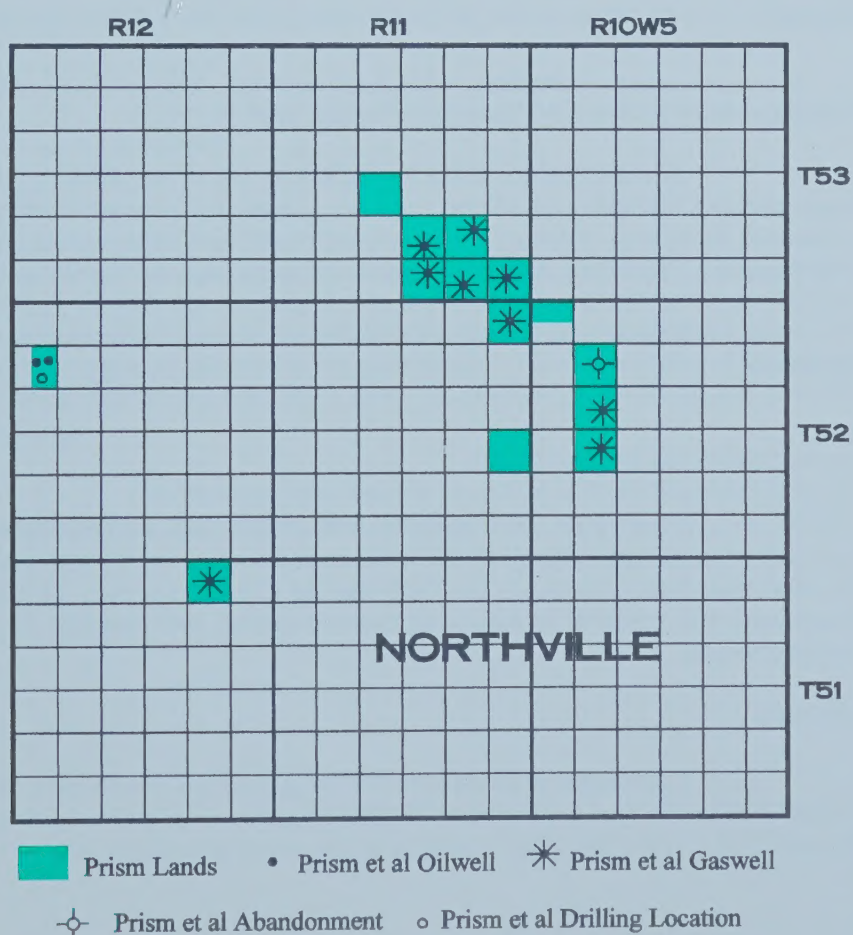
Proven plus 50 percent of probable reserves to Prism's interest increased to 2,005,500 barrel equivalents at year end. This equates to a 12.1 year remaining reserve life at 1996 production rates.

LAND

The company's land holdings at December 31, 1996 totalled 118,200 gross acres, (33,290 net) all of which are located in Alberta. Undeveloped holdings totalled 13,280 acres, (4,045 net).

Acquisitions were made during the year in the Provost area while the company's holdings in Gilwood and some undeveloped lands at Hotchkiss were sold.

Prism holds an average 43.4 percent interest in 2,080 acres of petroleum rights offsetting the 1996 Viking oil discovery (Provost 2-1-36-9-W4), which will be exploited in the coming year.



Management's Discussion And Analysis

The following discussion and analysis of operating results and financial condition should be read in conjunction with the financial statements commencing on page 9 of this report.

It should be noted that the results presented herein for the period ending December 31, 1996, (referred to below as 1996), include only the last six months from the former RollinOil Resources Inc. holdings and the last four months from the former Prism Petroleum Ltd. holdings.

REVENUE

Gross revenues from petroleum and natural gas sales before royalties decreased two percent to \$1,379,515. Approximately 47 percent of revenues were derived from sales of natural gas, 32 percent from crude oil and 21 percent from natural gas liquids. Average prices received from crude oil and NGL sales increased 32.5 percent from the previous year to \$27.42/bbl. while natural gas prices increased by 16.5 percent to \$1.54 mcf. On a barrel equivalent basis, the average realization from 1996 sales was \$20.14/boe, a 30.3 percent increase from \$15.45/boe received the previous year.

ROYALTIES

Royalties paid totalled \$61,082 net of ARTC rebates of \$74,880, for an average rate of 4.4 percent of sales revenues. Average net royalty cost in 1996 was \$0.89/boe compared to \$1.81/boe in the prior year.

EXPENSES

Lease operating expenses totalled \$581,118 or \$8.48/boe compared to \$524,953 or \$5.77/boe the previous year.

General and administrative expenses, net of recoveries and interest charges, totalled \$116,098 or \$1.69/boe. This is a substantial improvement over prior year costs of \$4.43/boe. Gross general and administrative expenses not including interest, totalled \$178,867 in 1996, while overhead recoveries amounted to \$62,769.

Interest and financing costs incurred during 1996 totalled \$30,858 or \$0.45/boe.

CASH FLOW FROM OPERATIONS

Cash flow from operations for 1996 totalled \$590,359, a 334 percent increase compared to \$136,010 the previous year. On a unit of production basis, cash flow from operations for 1996 was \$8.62/boe, up from \$1.49/boe the previous year due primarily to improved product pricing and reduced G & A and financing charges.

EARNINGS

Depletion and amortization of the company's assets was calculated to be \$361,719 for the year compared to \$2,252,229 in the prior year. 1996 depletion costs were \$357,573 or \$5.22/boe reflecting the carrying costs of proven reserves only.

Prism paid no current income taxes nor made provision for deferred income taxes in either 1996 or the previous year, as available deductions exceeded taxable income.

Prism realized net income of \$406,686 in 1996, compared to a loss of \$2,151,910 the previous year. Net income from continuing operations in 1996 was \$216,696, and a gain from restructuring of long term debt was \$189,990.

CAPITAL EXPENDITURES

Capital expenditures for 1996 totalled \$5,650,200, a significant increase from prior year expenditures of \$168,457 due primarily to the Prism acquisition cost of \$4,697,700.

LIQUIDITY AND DEBT

At December 31, 1996 Prism had a positive cash position of \$51,830 in addition to its \$400,000 revolving line of credit facility.

Prism's long term debt of \$2,200,000 is scheduled to be reduced to \$1,600,000 during 1997.

The interest rate on the company's indebtedness is charged at prime plus 0.5 percent.

FINANCING ACTIVITIES

In November, 1996, Prism received approval from regulatory authorities to make a normal course issuer bid for up to five percent of its common shares.

In December, 1996, Prism issued 670,000 flow through common shares at \$0.12 per share.

OUTLOOK

Prism expects to realize significant growth in 1997. Cash flow is forecast to increase significantly due to improved natural gas pricing and increased sales volumes. G & A and operating costs on a unit of production basis are also expected to improve significantly in the coming year. Firm development and acquisition programs will be funded from cash flow, the company's revolving line of credit, and joint ventures.

The company also intends to pursue additional growth opportunities through acquisition, exploration and development, which would be funded from external sources.

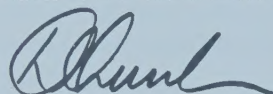
Management Report

The financial statements of Prism Petroleum Ltd. were prepared by management within acceptable limits of materiality in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

The financial statements have been prepared in accordance with the accounting policies as described in the notes to the financial statements. Timely release of financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. When necessary, such estimates are based on informed judgements made by management.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and financial records are properly maintained to facilitate the preparation of financial statements for reporting purposes.

External auditors appointed by the shareholders, have conducted an examination of the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee has met with the auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Board of Directors has approved the financial statements on the recommendation of the audit committee.



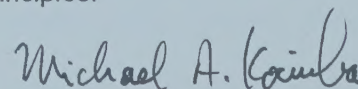
Douglas H. Church
President

To the Shareholders of
Prism Petroleum Ltd. (formerly RollinOil Resources Inc.)

I have audited the balance sheets of Prism Petroleum Ltd. (formerly RollinOil Resources Inc.) as at December 31, 1996 and June 30, 1996 and the statements of income and retained earnings and changes in financial position for the six months ended December 31, 1996 and for the year ended June 30, 1996. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and June 30, 1996 and the results of its operations and the changes in its financial position for the six months ended December 31, 1996 and for the year ended June 30, 1996 in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANT

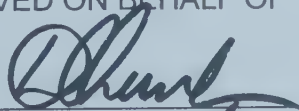
CALGARY Alberta
March 31, 1997

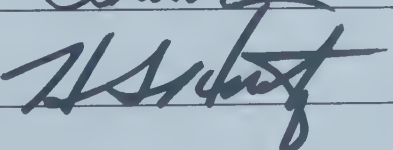
Auditor's Report To The Shareholders

**PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
BALANCE SHEETS**

	December 31, 1996	June 30, 1996
	\$	\$
<u>ASSETS</u>		
CURRENT		
Cash	51,830	-
Accounts receivable and accruals	643,817	220,121
Alberta royalty tax credit receivable	131,176	36,551
Deposits and prepaids	114,474	-
	<u>941,297</u>	<u>256,672</u>
PETROLEUM AND NATURAL GAS PROPERTIES (Note 3)	9,024,128	3,735,616
OTHER	-	7,464
	<u>9,965,425</u>	<u>3,999,752</u>
<u>LIABILITIES</u>		
CURRENT		
Accounts payable and accrued liabilities	688,094	210,814
Current portion of long-term debt (Note 4)	600,000	240,000
	<u>1,288,094</u>	<u>450,814</u>
LONG-TERM DEBT (Note 4)	1,600,000	1,065,319
SITE RESTORATION PROVISION	145,536	97,651
<u>SHAREHOLDERS' EQUITY</u>		
CAPITAL STOCK (Note 5)	6,417,518	4,990,888
RETAINED EARNINGS (DEFICIT)	514,277	(2,604,920)
	<u>6,931,795</u>	<u>2,385,968</u>
	<u>9,965,425</u>	<u>3,999,752</u>

APPROVED ON BEHALF OF THE BOARD


 _____ Director


 _____ Director

PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
STATEMENTS OF INCOME AND RETAINED EARNINGS

	Six Months Ended December 31, 1996	Year Ended June 30, 1996
	\$	\$
REVENUES		
Oil and gas, net of royalties	1,243,553	1,211,450
Alberta royalty tax credits	74,880	29,445
	<u>1,318,433</u>	<u>1,240,895</u>
EXPENSES		
Operating costs	581,118	524,953
Depletion and amortization	361,719	2,252,229
General and administrative	116,098	403,146
Interest on long-term debt	30,858	176,786
Site restoration provision	11,944	35,691
	<u>1,101,737</u>	<u>3,392,805</u>
INCOME (LOSS) BEFORE OTHER	216,696	(2,151,910)
OTHER		
Gain on repayment of debentures	189,990	-
INCOME (LOSS) FOR THE PERIOD	406,686	(2,151,910)
DEFICIT, BEGINNING OF PERIOD	(2,604,920)	(453,010)
REDUCTION OF ACCUMULATED DEFICIT (Note 5(c))	2,712,511	-
RETAINED EARNINGS (DEFICIT), END OF PERIOD	<u>514,277</u>	<u>(2,604,920)</u>
Basic Earnings (Loss) Per Share	<u>0.012</u>	<u>(0.096)</u>

PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
STATEMENTS OF CHANGES IN FINANCIAL POSITION

	Six Months Ended December 31, 1996	Year Ended June 30, 1996
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the period	406,686	(2,151,910)
Items not affecting cash		
Depletion and amortization	361,719	2,252,229
Provision for site restoration	11,944	35,691
Gain on repayment of debentures	(189,990)	-
Cash flow from operations	590,359	136,010
Net changes in non-cash working capital balances related to operations (*)	(230,400)	46,315
	359,959	182,325
FINANCING ACTIVITIES		
Issue of capital stock for Prism (Note 1)	4,027,900	-
Proceeds of long-term debt	2,200,000	-
Issue of capital stock, net of issue costs	111,341	256,696
Repurchase of capital stock	(100)	-
Repayment of debentures payable	(510,000)	-
Repayments of long-term debt	(1,305,319)	(1,132,880)
	4,523,822	(876,184)
INVESTING ACTIVITIES		
Other	7,464	(7,464)
Acquisition of petroleum and natural gas properties	(952,472)	(168,457)
Acquisition of Prism, net of cash acquired (Note 1)	(3,886,943)	-
Proceeds from sale of petroleum and natural gas properties	-	869,780
	(4,831,951)	693,859
CASH, END OF PERIOD	51,830	-
* Net changes in non-cash working capital		
Accounts receivable and accruals	78,905	(68,190)
Alberta royalty tax credit receivable	(59,240)	14,494
Deposits and prepaids	(8,600)	40,107
Accounts payable and accrued liabilities	(241,465)	59,904
	(230,400)	46,315

**PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND JUNE 30, 1996**

1. BUSINESS ACQUISITION

On May 19, 1996, the Company signed an agreement with the former Prism Petroleum Ltd. ("Prism") to combine the business, assets and operations of the companies in a new amalgamated corporation, Prism Petroleum Ltd. On August 30, 1996 at a special meeting of the shareholders, the shareholders of the Company approved the amalgamation with Prism.

The amalgamation occurred on September 1, 1996. This business combination has been accounted for as a purchase of Prism by the Company with the results of Prism operations included in the financial statements from September 1, 1996. Details of the acquisition are as follows:

	\$	\$
Net assets acquired, at assigned values:		
Cash		140,957
Accounts receivable and accruals		502,601
Alberta royalty tax credit receivable		35,385
Petroleum and natural gas properties		4,697,759
Other assets		<u>105,874</u>
		5,482,576
Less:		
Accounts payable and accrued liabilities	718,745	
Debentures payable	699,990	
Site restoration provision	<u>35,941</u>	
		<u>(1,454,676)</u>
		4,027,900
Consideration given:		
19,455,340 common shares		4,093,237
Less: amalgamation costs		<u>(65,337)</u>
		<u>4,027,900</u>

2. SUMMARY OF ACCOUNTING POLICIES

a) Petroleum and Natural Gas Properties and Related Depletion and Amortization

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas properties are capitalized into a single Canadian cost centre. Such costs include land acquisition costs, geological and geophysical expenses, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells and related overhead charges.

The costs related to a cost centre from which there is production, together with the costs of production equipment, are depleted and amortized using the unit of production method based on the estimated proven reserves as determined by independent reservoir engineers. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content.

**PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND JUNE 30, 1996**

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

Costs directly associated with the acquisition and evaluation of unproved properties are initially excluded from the computation of depletion. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to all other capitalized costs which are depleted.

In applying the full cost method, the Company calculates a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, after deducting estimated future general and administrative expenses, future removal and site restoration costs, financing costs and income taxes, all undiscounted and unescalated. Additional depletion is provided if the net book value of capitalized costs exceeds future revenues.

Sales of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion and amortization by more than twenty percent.

b) Other Capital Assets and Related Amortization

The Company provides for amortization on other capital assets using the declining balance method at an annual rate of 20%.

c) Flow-Through Shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced in investors in accordance with income tax legislation. Petroleum and natural gas properties and capital stock are reduced by the estimated costs of the renounced tax deductions when the expenditures are incurred.

d) Joint Operations

Substantially all of the Company's exploration and production activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

e) Site Restoration Costs

Estimated site restoration costs, net of expected recoveries, are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. Site restoration expenditures are charged to the accumulated provision account as incurred.

**PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND JUNE 30, 1996**

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

f) Income Taxes

The Company follows the tax allocation method of accounting for corporate income taxes. Deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts, primarily exploration and development costs and capital cost allowance, in excess of the related depletion and amortization recorded in the financial statements.

g) Earnings (Loss) Per Share

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	December 31, 1996		June 30, 1996	
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Petroleum and natural gas properties, including development thereon and production equipment	12,629,178	3,657,793	8,971,385	3,700,939
Other capital assets	76,488	23,745	52,743	34,677
	12,705,666	3,681,538	9,024,128	3,735,616

An additional depletion charge of \$ 1,600,000 was recorded in the year ended June 30, 1996 to reflect a reduction in the net recoverable amount. This additional charge was approved by the board of directors on July 17, 1996 in anticipation of the business combination (see note 1).

As at December 31, 1996 there are unproved properties consisting primarily of undrilled land with a carrying value of \$ 140,000 (June 30, 1996 - \$ nil) which have been excluded from depletion and amortization calculations.

During the period the Company capitalized \$ 10,450 (June 30, 1996 - \$ nil) of consulting and overhead costs directly related to acquisition, exploration and development activities.

Certain petroleum and natural gas properties having a net book value of \$ 4,773,000 (June 30, 1996 - \$ 1,520,492) for accounting purposes have a nil cost for income tax purposes. These differences arose as a result of asset purchases with nominal tax values and the issuance of flow-through common shares.

**PRISM PETROLEUM LTD.
(FORMERLY ROLLINOIL RESOURCES INC.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1996 AND JUNE 30, 1996**

4. LONG-TERM DEBT

	December 31, 1996	June 30, 1996
	\$	\$
Bank loan (see below)	2,200,000	-
Bank loan, with interest at prime plus 1¼%, secured by a general assignment of book debts and oil and gas properties and demand debenture in the amount of \$ 5,000,000. Monthly principal repayments are \$ 20,000	-	1,305,319
	2,200,000	1,305,319
Current portion	600,000	240,000
	1,600,000	1,065,319

The bank loan, which bears interest at prime plus ½%, is secured by a \$ 5,000,000 fixed and floating charge debenture over all of the petroleum and natural gas properties and a general security agreement covering all of the Company's assets. Monthly principal repayments of \$ 50,000 commence January 1, 1997.

In addition, the Company has a \$ 400,000 revolving demand credit facility which bears interest at the prime rate plus ½% per annum. The security for the facility is as described above. Monthly principal repayments of \$ 50,000 will commence on September 1, 2000 for any amounts outstanding on this facility.

5. CAPITAL STOCK

a) Authorized

Unlimited number of common voting shares of no par value

Unlimited number of preferred shares which may be issued in one or more series. The directors are authorized to fix the number of shares in each series and determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

**PRISM PETROLEUM LTD.
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NOTES TO FINANCIAL STATEMENTS
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5. CAPITAL STOCK (Continued)

b) Issued

	Number of Common Shares	Stated Value
	#	\$
Balance - June 30, 1995	20,376,883	4,734,192
Issued pursuant to share rights offering	2,325,050	232,505
Issued flow-through shares for cash	625,000	62,500
Share issue costs	-	(38,309)
Balance - June 30, 1996	23,326,933	4,990,888
Reduction of stated capital (see (c) below)	-	(2,712,511)
	23,326,933	2,278,377
Amalgamation of Prism (see note 1)	19,455,340	4,093,237
Amalgamation costs	-	(65,337)
Issued flow-through shares for cash	670,000	80,400
Share issue costs	-	(2,529)
Effect of tax deductions renounced on flow-through shares	-	(11,530)
Shares to be issued for petroleum and natural gas properties	300,000	45,000
	43,752,273	6,417,618
Normal course issuer bid (see (g) below)	(1,000)	(100)
Balance - December 31, 1996	43,751,273	6,417,518

c) Reduction of Stated Capital

On August 30, 1996, the shareholders of the Company approved a special resolution to eliminate the deficit immediately prior to the September 1, 1996 amalgamation by a reduction in the stated capital of the Company.

**PRISM PETROLEUM LTD.
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5. CAPITAL STOCK (Continued)

d) Stock Options

The following options to purchase shares are held by directors, officers, employees and consultants of the Company as at December 31, 1996:

Number of Shares	Exercise Price Per Share	Expiry Date
#	\$	
42,500	0.10	January 31, 1997
2,200,000	0.10	October 10, 2001

Subsequent to December 31, 1996, options to purchase 42,500 common shares at \$ 0.10 per share expired.

e) Escrow

As at December 31, 1996 - 3,805,914 (June 30, 1996 - 1,694,444) common shares are held in escrow by the transfer agent subject to the direction or determination of the relevant regulatory authorities.

f) Flow-Through Share Commitment

As at December 31, 1996, the Company has a commitment to renounce approximately \$ 54,500 of tax attributes associated with exploratory and development activities relating to the issuance of the flow-through common shares.

g) Normal Course Issuer Bid

In accordance with the normal course issuer bid filed by the Company with the Alberta Stock Exchange, the Company was permitted to purchase and cancel up to 2,139,112 of its common shares prior to November 22, 1997. As at December 31, 1996 the 1,000 common shares acquired during the period have not yet been cancelled.

**PRISM PETROLEUM LTD.
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6. INCOME TAXES

The provision for income taxes reflects an effective tax rate which differs from combined federal and provincial statutory tax rates. The main differences are summarized as follows:

	Six Months Ended December 31, 1996	Year Ended June 30, 1996
	\$	\$
Income (loss) before income taxes	406,686	(2,151,910)
Corporate tax rate	44.6%	44.6%
Calculated income tax provision	181,382	(959,752)
Increase (decrease) in taxes resulting from:		
Non-deductible depletion	86,391	413,702
Crown royalties and crown lease rentals	70,214	55,962
Other	1,571	4,359
Alberta royalty tax credits	(33,396)	(13,132)
Resource allowance	(60,916)	(21,999)
Share issue costs	(42,129)	(51,217)
Tax benefits not previously recognized	(203,117)	-
Future tax benefits not recognized	-	572,077
	-	-

The Company has incurred losses for income tax purposes of approximately \$ 707,600, the related benefit of which have not been recorded in the financial statements. Unless sufficient taxable income is earned, these losses will expire as follows:

	\$
2001	280,300
2002	332,400
2003	94,900

**PRISM PETROLEUM LTD.
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6. INCOME TAXES (Continued)

As at December 31, 1996, the Company has available for deduction against future taxable income the following approximate amounts:

		Annual Rate of Claim
	\$	%
Canadian oil and gas property expenditures	2,435,400	10
Canadian development expenditures	1,162,200	30
Canadian exploration expenditures	78,800	100
Foreign exploration and development expenditures	16,500	10
Capital cost allowances	1,026,000	20-30
Unamortized share issue costs	366,500	20
Cumulative eligible capital expenditures	48,900	7
	5,134,300	

7. RELATED PARTY TRANSACTIONS

During the year the Company paid consulting fees to companies controlled by directors and officers of the Company totalling \$ 41,800 (June 30, 1996 - \$ 136,925 was paid to former directors and officers).

8. CONTINGENCIES

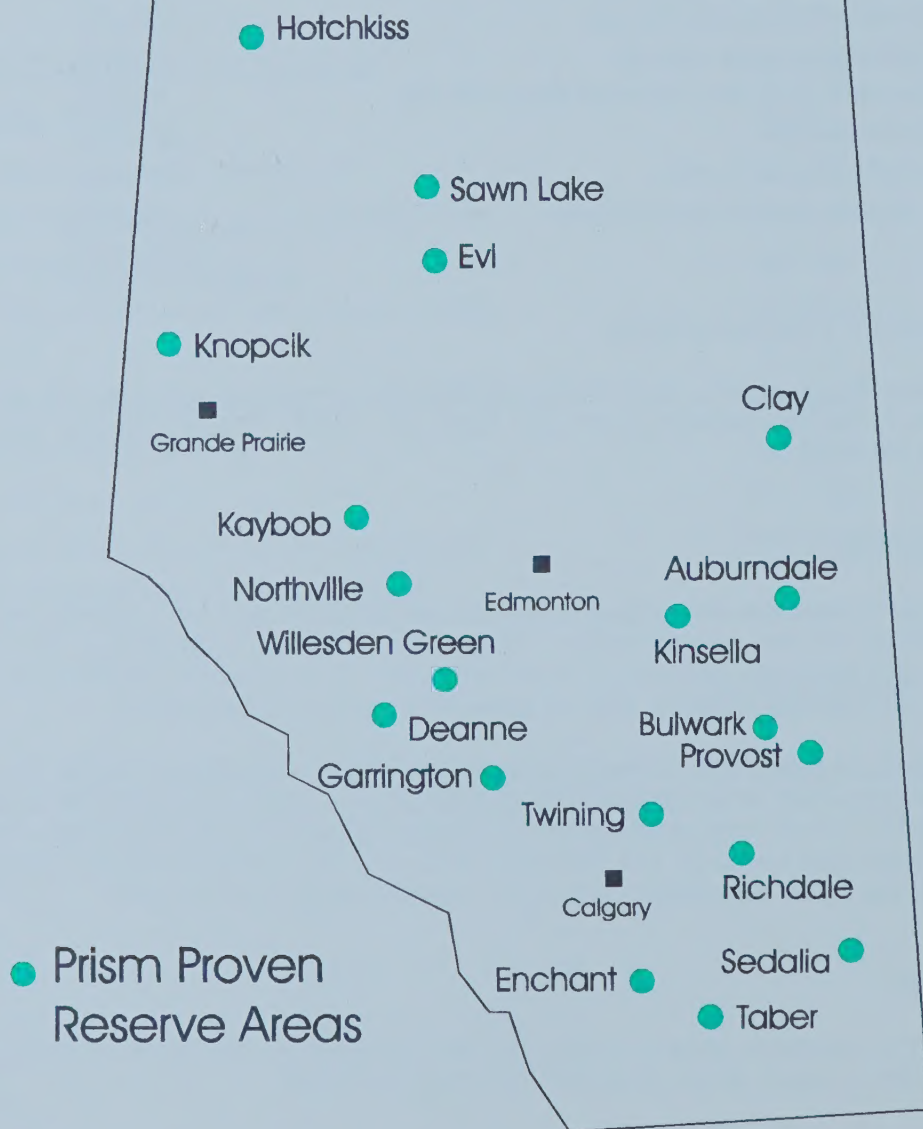
- a) The Company activities are subject to various government laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and generally becoming more restrictive. The Company believes its operations comply in all material respects with all applicable laws and regulations.
- b) A statement of claim has been issued against three subsidiary companies that were acquired during 1994 and subsequently amalgamated. In the opinion of management, the claim is without merit and no provision has been made for it in the accounts. In the event that this claim does succeed, the Company has received certain indemnifications from the vendors of the three subsidiary companies for any losses it may incur.

9. COMMITMENT

The Company's minimum annual rentals for office premises, exclusive of realty taxes and occupancy costs, in each of the next five years are as follows:

	\$
1997	20,963
1998	20,963
1999	20,963
2000	21,962
2001	21,962

ALBERTA





PRISM



1996